Future Plans/Objectives

Program Improvements

- **Payment System Enhancements** The agency will work with the Department of the Treasury's (Treasury) Financial Management Service (FMS) on processing changes that will allow us to prepare and transmit our monthly RRA payment files later in each month. The later processing dates will allow us to (1) stop the release of payments to beneficiaries whose non-entitlement is reported late in the month, (2) process address and direct deposit changes later each month, thereby helping to ensure that monthly payments are received timely by the correct beneficiaries, and (3) improve the timeliness of award actions because of the addition of several processing days each month before "cutoff." The processing changes also eliminate the need for a payment intercept program, which we announced last year as an initiative that we would implement in fiscal year 2004.

  We plan to implement the processing changes effective with payments dated October 1, 2004. The changes will prevent the release of erroneous payments to an estimated 500 beneficiaries each month. Most of these beneficiaries are no longer entitled to benefits because of their deaths.

- **Medicare Part D** Beginning in May 2005, qualified railroad retirement beneficiaries (QRRB's) will be able to enroll in prescription drug plans (PDP) under Medicare Part D. Benefits under Part D will be available beginning January 1, 2006.

  We will be working with the Centers for Medicare and Medicaid Services (CMS) and SSA to implement Medicare Part D. Preliminary requirements include:

  - Receive and process Part D enrollment, dis-enrollment and change transactions from either CMS or SSA.
  - Deduct proper Part D premiums from annuities of QRRB's.
  - If a QRRB is not receiving an annuity or the net monthly annuity is less than the amount of the Part D premium, initiate direct billing for collection of the Part D premiums.
  - Deposit Part D premiums into the Prescription Drug Account within the Federal Supplementary Medical Insurance Trust Fund.
  - Send notices to QRRB's when Part D premium deductions begin, end, and/or change.

  We will also be planning and defining requirements for changes effective in 2007 that require beneficiaries with annual incomes over $80,000 ($160,000 for couples) to pay higher Part B premiums. SSA will make determinations as to the amount of an individual's Part B premium. RRB will need to process determination transactions to ensure that proper Part B premiums are deducted or billed each month.

- **Medicare Contracting Reform** On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA) was enacted. Section 911 of the Act establishes Medicare Contracting Reform (MCR) that will be implemented over the next several years. Under this provision, CMS is to replace the current Part A Medicare Fiscal Intermediaries and Part B Carriers, using competitive procedures with new Medicare Administrative Contractors (MAC's) by 2011. The MAC's will handle both Part A and Part B Medicare claims.

The RRB is authorized to contract with a carrier or carriers to provide supplemental medical insurance benefits (Medicare Part B, only) by the Social Security Act, subsection 1842(g). We currently have a nationwide contract with Palmetto GBA to act as the carrier for the RRB's Part B Medicare program. Consequently, the RRB will need to work closely with CMS to meet the new legal contract reform requirements and, at the same time, ensure that our railroad Medicare beneficiaries are not disadvantaged by the implementation of the new MAC's.

- **RRB HelpLine Improvements** We are working with AT&T to improve the services available to customers who call our toll-free interactive voice response system (i.e., RRB HelpLine). The service enhancements we plan to implement by September 30, 2004, include:
    - Revised call flows to incorporate new service options and simplify access to services;
    - An option to allow callers to request duplicate Railroad Retirement Act tax statements; and,
    - Expanded general information about a variety of subjects, and a new "urgent" announcement service.

- **Internet Unemployment Claim Service** Unemployment Claim Service will be made available over the Internet. In March 2004, the RRB implemented on-line applications for unemployment insurance benefits. The next phase, also planned for 2004, will be a service enabling beneficiaries to file their biweekly claims on-line, providing customer convenience, expediting payments, and streamlining RRB processing.

<u>Improper Payments Information Act of 2002</u>

Narrative Summary of Implementation Efforts for FY 2004
and
Agency Plans for FY 2005 – FY 2007

The Improper Payments Information Act of 2002 (Public Law 107-300, enacted November 26, 2002) requires Federal agencies to annually review all programs and activities that the agency administers and identify those that may be susceptible to significant improper payments. In May 2003, OMB issued Memorandum M-03-13, which defined improper payments as those that ***exceeded*** 2.5 percent of program payments ***and*** $10 million.

In accordance with the OMB guidance, the RRB's Office of Programs calculated the amount of improper payments made in fiscal year 2003 for each of the two programs our agency administers. They are listed in the former Section 57 of OMB A-11: Retirement and Survivor Benefits (RRA) and Railroad Unemployment Insurance Benefits (RUIA). That information, which is provided in an appendix to this report, reveals that neither of the RRB's benefit payment programs exceeds the OMB threshold for improper payments. Therefore, the agency is not required to prepare and monitor a formal action plan for reducing or eliminating improper payments.

While we do not have a formal plan for targeting precise levels of improper payments, we do have ongoing activities and projects aimed at improving the accuracy of our payments and reducing our erroneous payments.

The RRB's OIG released a briefing paper on improper payments in January 2004. In it, the OIG states that an analysis of existing accounts receivable and quality insurance information indicates that improper payments in the RRA and RUIA programs typically fall into two categories: *adjudicative error* (i.e., benefit payment decisions that are inconsistent with the law or regulations) and *out-of-date information* that impacts benefit entitlement.

To detect improper payments due to *adjudicative error*, we conduct our quality assurance programs which identify activities that are susceptible to error and implement process improvements to prevent further errors.

To detect improper payments due to *out-of-date information*, we conduct comprehensive program integrity efforts which aim to validate continued entitlement to our benefits.

To maintain our overall high levels of accuracy, we continue to improve our adjudication and payment systems and procedures to minimize errors. We are also pursuing two initiatives which will minimize specific types of improper payments in the RRA program:

- The Treasury is establishing a later monthly pay date, which will shorten the period between the RRB's processing of the monthly check issue file and the Treasury's issuance of payments. This will allow us to terminate benefits more timely and reduce the improper payments in our RRA program. According to the OIG, payments released after the death of an annuitant are the single largest category of overpayments. They often include only a single check. (See more information about this project in the Program Improvements Section of this report.)

- We are developing a system that will expand on our current process of evaluating adjustments received from employers to our employee service and compensation records and adjust annuities if needed. This initiative will identify specific RRA improper underpayments and allow us to pay out additional benefits due.

Furthermore, as mentioned in the Systems and Controls section of this report, the agency maintains an effective internal control review process for all our benefit payment programs. Annual risk assessments are performed by responsible officials and weaknesses are identified and addressed promptly.

Additionally, the OIG indicates that during fiscal years 1998 through 2003, the OIG presented RRB management with 56 recommendations for process improvement and corrective action pertaining to improper payments. Agency management has implemented or plans to implement 50 of the 56 recommendations. We will continue to work with the OIG to address the issue of improper payments in our benefit programs.

Systems and Controls

The RRB continually evaluates the effectiveness and efficiency of its operations using ongoing assessments and reviews of management controls, internal and external audits, quality control and assurance reviews, program integrity activities and customer satisfaction surveys.

Under the direction of a Management Control Review Committee (MCRC) composed of senior managers from its program, information services, administrative, and financial operations, the RRB has divided these operations functionally into 44 assessable units. The number of assessable units varies from year to year as operations are restructured to accommodate changes precipitated by such factors as new and revised missions, reduced resources, and increased automation.

The mission, key performance indicators, workflow, control objectives and techniques, guidance, automated systems support, impact, and vulnerability of each assessable unit are documented. The RRB maintains and annually updates a 5-year plan for review of the assessable units. The official responsible for each assessable unit prepares an annual assessment of key indicators and open or new issues requiring management's attention. High impact and vulnerable assessable units are scheduled for periodic, in-depth reviews as deemed necessary by the MCRC in consultation with senior management.

During fiscal year 2004, responsible officials performed in-depth reviews of 6 assessable units, assessed all 44, and certified 43. Since passage of the FMFIA in 1982, the RRB has identified 72 material weaknesses and corrected 71. An action plan for elimination of the one open material weakness is being implemented and should result in certification of the assessable unit in fiscal year 2005.

The RRB first reported on this material weakness in fiscal year 2002, which relates to deficiencies in operational and technical controls in the Information Security Program. The critical elements attributed to the weakness are inadequate security awareness, training and education of individuals responsible for security-related activities, and logical access controls. We expect to complete the remaining action plan tasks and report elimination of this material weakness in our 2005 Performance and Accountability Report. The corrective actions and status for this material weakness are as follows:

Corrective Actions	Status
Fiscal Year 2002	
1. Provided updated security awareness training to all employees.	Accomplished
2. Began developing a role-based security training program for all individuals responsible for security related activities and logical access controls.	Accomplished
3. Began resolving audit recommendations associated with logical access controls.	Accomplished
4. Established the Risk Management assessable unit.	Accomplished
Fiscal Year 2003	
1. Completed development of the role-based security training program.	Accomplished
2. Provided some role-based security training. Contractor presented implementation plan.	Accomplished
3. Continued to provide updated security awareness training.	Accomplished
4. Continued to resolve audit recommendations associated with logical access controls as required.	Accomplished

Corrective Actions	Status

Fiscal Year 2004

1. Continued to provide updated security awareness.	Accomplished
2. Completed required documentation of the Risk Management assessable unit.	Accomplished
3. Developed performance measures.	Accomplished

Fiscal Year 2005

1. Continue to provide role-based security training.	Planned
2. Resolve audit recommendations associated with logical access controls as needed.	Planned
3. Incorporate performance measures within individual job descriptions and performance plans.	Planned
4. Complete the management control review.	Planned
5. Report elimination of the Information Security material weakness in the 2005 *Railroad Retirement Board Performance and Accountability Report.*	Planned

Summary of Actuarial Forecast

The funding goal of the railroad retirement system is to receive enough funds each year to cover benefits and expenses for the year and to maintain a reasonable account balance. In terms of the participants in the system, payroll taxes collected each year from rail employers and employees are used to pay benefits to rail retirees, their spouses, and survivors.

Employers and employees pay a tax at the social security rate on earnings in a year up to the social security, or tier 1, earnings limit. In addition, employers and employees pay a tier 2 tax equal to a percentage of the employee's earnings up to the tier 2 earnings limit. The tier 2 earnings limit is what the social security limit would be if the 1977 social security amendments had not been enacted.

Under the provisions of the RRSIA, the tier 2 payroll tax rate for each year is determined by the average account benefits ratio, which is the average for the 10 most recent fiscal years of the ratio of the fair market value of assets in the RR Account and the NRRIT (and for years before 2002, the SSEB Account) to the total benefits and administrative expenses paid for the RR Account and the NRRIT. The tier 2 tax rate adjustment mechanism promotes but does not guarantee solvency. The tier 1 payroll tax rate does not vary by employment assumption.

The 2004 Section 502 financial report to the President and the Congress was prepared under three assumptions as to the future behavior of railroad employment. Employment assumptions I and II are based on the stability of employment in passenger service as distinguished from freight service. Employment assumption III follows the structure of assumptions I and II, except that it has declines in passenger employment and steeper declines in freight employment. Employment assumptions I, II, and III are intended to provide an optimistic, moderate, and pessimistic assumption, respectively.

Under employment assumptions I and II, the optimistic and moderate assumptions, there are no cash flow problems during the 25-year projection period. Under employment assumption III, the pessimistic assumption, cash flow problems arise in 2026 and remain through the end of the 25-year projection period.

The conclusion is that, barring a sudden, unanticipated, large drop in railroad employment or substantial investment shortfalls, the railroad retirement system will experience no cash flow problems for at least 22 years. The long-term stability of the system, however, is not assured. Under current financing structure, actual levels of railroad employment and investment return over the coming years will determine whether additional corrective action is necessary.

The Required Supplementary Stewardship Information section includes the disclosures required by Federal Accounting Standards Advisory Board (FASAB) Statement 17, Accounting for Social Insurance.

Section 7105 of the Technical and Miscellaneous Revenue Act of 1988 requires the RRB to submit an annual report to Congress on the financial status of the railroad unemployment insurance system. In the 2004 report, projections were made for the various components of income and outgo under each of three employment assumptions for the 11 fiscal years 2004-2014. The results indicate that the Railroad Unemployment Insurance (RUI) Account will be solvent during the 11-year projection period. A 1.5 percent surcharge is expected in calendar years 2005-2006. A 1.5 percent surcharge is also probable for calendar year 2007, and railroads will likely pay a 1.5 percent surcharge periodically thereafter. Interfund loans from the RR Account to the RUI Account are permitted. However, no new loans are anticipated under even the most pessimistic assumption.

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